

**FINANCIAL MANAGEMENT
HUNGARIAN CITIES:
THE CASE OF TATABÁNYA**

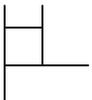
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Prepared by

Róbert Kovács
Orsolya Sebák
MRI

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THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

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FINANCIAL MANAGEMENT IN HUNGARIAN CITIES:

THE CASE OF TATABÁNYA

INTRODUCTION

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Tatabánya, a city with county rights, is 55 kilometers north of Budapest, capital of Hungary, on the Budapest-Vienna highway (M1 or E60 or E75) and railway. Its territory is 91.4 square kilometers and occupies a 14 km long stretch between the ridges of Gerecse and Vértes, two mountains rich in natural resources. Tatabánya is the county seat of Komárom-Esztergom with a population of 300 thousand. The city's population is 75 thousand; including neighboring communities, 90 thousand. Its early development started with the exploration of coal resources; the Esterházy shaft, the first mine, was opened in 1896. In the first third of the 20th century the city became a significant center of heavy industry. It was elevated to city rank in 1947, to county seat in 1950 and city with county rights in 1991.

As a result of social and economic changes in the 1990s, the economic structure of the city has changed. Earlier major industries were coal, bauxite and stone mining, cement production, aluminum production and construction industry; these industries have closed down or have become much less significant. The former mammoth companies have been replaced by smaller enterprises with fewer employees partly retaining old activities but also flexibly and dynamically adapting to new market conditions. As a result of economic development efforts, foreign investors have appeared. Its location (on the Budapest–Győr–Székesfehérvár, Budapest-Vienna-Bratislava triangles) and easy access (M1 highway and railway) make the city attractive to investors. With a proper urban policy concept and adequate incentives the city makes use of its good location. The closing down of mines and the resulting unemployment and sense of insecurity have forced the city to change operational mechanisms. In order to operate more efficiently substantial changes have been implemented in the structure of the local government. Instead of traditional departments, service organizations have been set up made up of offices that deal with specific issues and heads of the service who develop the strategy of the given sector. This structure in principle allows for a better coordinated municipal operation and cooperation between sectors (based on coordinated strategies). True enough, problems generally faced by local governments have not been eliminated by the new structure: for instance, its undertaken control functions left unperformed after the 1990 Local Government Act weakened the role of counties; nor does it always coordinate the interests and goals of the various offices satisfactorily.

Our study was written based on interviews with:

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Dr. Bene Magdolna	Notary
István Jagicza	Head of the economic service organization
Ferenc Murányi	Head of the human service organization
Imre Hartdégén	Head of the city development and management service organization
István Agócs	Head of the economic development service organization public use Co.
Erzsébet Gíber	Deputy head of the economic development service organization public use Co.
Dr. Edit Kucsera	Director of DOH-Ungarn public use Co.

THE LOCAL GOVERNMENT AND ITS ENVIRONMENT

The local policy and economic strategy has a crucial role in what services are provided and what is the quality of these services. Compared to other big cities in Hungary, Tatabánya started to receive foreign technical assistance to cope with its exceptionally grave problems relatively early. As a result, a medium term development program, as well as a long term economic development strategy, including the goals of the city have been designed. Priority goals of the medium-term program are the fast improvement of the infrastructure and reducing unemployment, which is above the big city average in Tatabánya.

The unemployment rate fell from 12 percent in 1992 to about 9 percent in 1997.

The sewage project has been finished and now 100 percent of the city is serviced with sewage.

In a couple of years, the gas network has been constructed from scratch, as previously the energy was supplied by coal. The annual piped gas consumption per household increased from 1m³ in 1993 to 42.8 m³ in 1996.

In contrast to other cities, Tatabánya strives to harmonize service provision by institutions and the principles articulated in its economic development strategy. Its infrastructure investments, education strategy and taxation policy have been harmonized with the goals set in the long term strategy: to replace the former heavy industry with high technology production. In order to reduce high unemployment, the city has reformed vocational training to meet local demand of skills. With municipal support, a higher education institution has been set up to turn out highly qualified labor locally. There are plans to expand the institution with a technical sciences branch to meet local electronic industrial needs. The city tries to attract those kinds of investors that work in sectors favored by the city. In order to cooperate with investors more efficiently, the city set up an economic development organization, which is a public use company, a business, manned by former municipal staff.

This company is the intermediary between the municipality and potential investors and helps the latter with the “bureaucracy”.

Municipal Service Provision

Service provision by the municipality and its institutions is constrained by (sectoral) laws in effect and by the financial capacity of the local government. Nevertheless, municipalities enjoy a lot of room to maneuver. Tatabánya’s main concern has been to react to economic and demographic changes quickly. The city cooperates closely with the business and civil spheres. The economic development policy concept, presented in September 1994, has been decisive in the life of the city. The local government has adapted its service provision to strategic requirements in many respects. For instance, it has helped create higher education in the city and has modernized vocational training. To better use institutional capacity, the city strives to react to competition and tailor institutions to changes in economic requirements. For instance, the one time mining school now functions as a technical secondary school and high school. The Lajos Vas health care vocational secondary school has been restructured with help from the ministry to educate better qualified labor. The medium term education plan, adopted in 1997, is based on a study of potential economic and demographic changes and is designed to make a maximum use of school capacity and ensure employment or continuation to higher education as much as possible. To achieve this, school managers and the municipality has been closely monitoring economic trends.

Mandatory and Non-Mandatory Services

In Tatabánya, just like in other communities, it is not central requirements (mandatory and non-mandatory services) that primarily govern municipal service provision. The city has transferred the operation of the hospital, two high schools, a pupils’ hostel as well as the duties agency to the county. However, it retained the Mari Jászai theater and Community House, with which the mine had paid its debts. Basically, there are three major reasons why a service is provided: the given service is primarily used by local people (for instance, high school); it is a priority interest of the city (archives); or the institution is financially sound and fits the local institution structure.

Besides available options, local interests and prestige considerations play a role in the city’s choice to provide a certain service through the municipality or its institutions, to contract it out to the civil or business sectors, or to transfer it to the county as allowed by law. Often cities maintain their high schools or their elderly homes to serve the local people although they considerably drain the municipal budget. By contrast, when Tatabánya transferred the operation of the hospital to the county it knew very well that the hospital would not be closed down or moved and the county would have greater resources to operate it. However, in transferring the archives, which contain precious documents about the history of the city,

Tatabánya would have risked the closing down of the archives. Though there is no normative transfer for the archives, the city thought it had better retain it as an autonomous budget institution and keep the documents, including important records of the closing down of mines, on city premises. The supervisory agency is the county archives in Esztergom. The Sports Center is again a debt payment from the mine and the city has been maintaining it despite its cost of HUF 50 million annually.

As mentioned earlier, two high schools, a hostel for secondary school students and the duties agency have been transferred to the county. The two high schools have been transferred because the majority of students had come from outside of Tatabánya. The theater is a hybrid. It used to be in Tatabánya ownership but the county agreed to pay 25 percent of municipal costs. This had worked for a couple of years but conflicts arose when the county and the city wanted different persons to replace the old director. In the agreement it was not made clear whether any of the parties had a veto right. Since then, the county has been giving money intermittently. Last year it gave HUF 3 million but this year refused to give any (the relationship has turned very bad) and the city had to ensure an extra amount.

Having an institution of higher education serves several purposes. On the one hand it helps retain young people and on the other hand it helps to attract businesses by providing qualified labor. Earlier there had been no higher education in Tatabánya. Currently the College of Modern Business Sciences is operated by a foundation. The start-up was supported by the municipality but does not ensure further support.

All this shows that the city is willing to make great financial sacrifices to keep or set up institutions regarded as important. Bad experiences from other communities can be prohibiting for other cities. Today, the new institution structure of Tatabánya is in place. Only primary education has not been rationalized because of opposition from staff.

Methods of Service Provision

Basically, the local government provides services either through municipal institutions or through municipally owned Limited Companies or Public Use Companies. The Local Government Act allows local governments to contract out services. Contracting out can happen through a tender for a specified period of time, or a contract for an unspecified period of time. In the latter case the issue of ownership of assets involved in the provision of the service arises. In many cases, the local government transfers the ownership rights on the condition that the asset be used exclusively to provide that particular service; in other cases the asset is only transferred for operation. The choice of the method of providing services largely depends on political interests, options available and financial considerations. Of course, traditional institutional structures play a role: besides factors mentioned, "local practices" influence municipalities in their decision whether they change service provision or

leave the former structure unchanged.

Tatabánya's institution system as a whole is financially innovative, though political considerations affect institutional rationalizing. Table 1. shows forms of service provision.

Table 1
Types of Service Provision

Service	Provider
Kindergarten	Municipal institution Foundation Church
Primary education	Municipal institution Foundation Church
Secondary education	Municipal institution 2 high schools transferred to the county
Higher education	Foundation
Basic health care	Business
Social provisions	Municipal institution Business (Public Use Co.)
Hospital	County
Housing management	Business (Ltd.)
Management of the public cemetery	Business (Ltd.)
Local public transportation	Regional business
Park maintenance	Business (Deposit partnership)
Archives	Municipal institution
Community education	Municipal institution
Theater	Municipal institution
Fire department	Municipal institution
Public cleanliness	Business (stock holders' company) 10 year contract
Winter road maintenance	Business (stock holders' company) 10 year contract
Road maintenance and renewal	tender twice a year
Road traffic lights	Business (stock holders' company) 10 year contract
Road surveillance	Business (stock holders' company) 10 year contract
Water and sewage	Publicly owned Co.
Sports	Ltd. 100 percent in municipal ownership

Orosháza mostly continues to provide the old services in the old ways and there are few innovations. Neither the municipality nor business feel urged to change.

In the current local government structure, municipalities are mostly concerned with

maintaining institutions rather than providing the service. Nevertheless, rationalizing institutions may help provide services efficiently and economically. In Tatabánya there is an unreasonably large number of primary schools (17) and kindergartens (18). The system is so fragmented because of the physical shape of the city, which is long and segmented. Due to the city's length, the 17 primary schools and 18 kindergartens spread over a large area, of very different quality and used to different extents of their capacities. Underuse and bad technical state increase maintenance costs. Due to underuse of capacity, senior grades in one of the schools on the outskirts have been closed down and pupils are bused to another school. The law does not require local governments to provide the 8 grade primary education but only to ensure the possibility of going to school. Tatabánya badly needs to rationalize its schools in order to make service provision more efficient and economically sound. Despite underuse of schools, Tatabánya has closed down only one primary school, and the building has been transferred to the foundation operating the College of Modern Business Sciences. A recommendation to merge institutions has been rejected by the City Council. Either by merging or by closing down schools, or by putting them under one financial direction, Tatabánya's institutional structure needs restructuring.

Tatabánya provides services in the following ways:

Municipal budget institutions.

100 percent municipally owned businesses.

Independent organizations with municipal support (i.e., a church or foundation).

Contracting a private business (in which the municipality may have a share).

Municipal budget institutions:

The theater, the fire department, primary and secondary schools are all municipal budget institutions. Political pressure has blocked merging schools. Generally, institutions are encouraged to raise more own revenues. One incentive is that the municipal support they receive is largely independent from own revenues. The objective is to make institutions manage their own finances and finance improvements from savings.

100 percent municipally owned businesses:

The Economic Development Public Use Company is a municipally owned business that sells municipal land. The company was set up owing to efficiency considerations. To attract investors by selling valuable real estate was a primary strategy for Tatabánya. This task, however, could not have been performed within the framework of the local government.

Organizational description:

Community development functions are met by the Economic Development Public Use Company, a business fully in municipal ownership. The organization was set up in 1996 by the municipality to encourage the sales of high value real estates owned by the municipality in order to solve liquidity problems. Its operation is regulated in a contract signed with the local government. The company's offices are in the mayor's office. It is a commission agent to sell land designated by the municipality for development but does not own the property. There are certain lands that the company may sell or rent at its own discretion but only with the approval of the City Council.

The municipality supports the company, though its yield is hardly quantifiable.

Alternative services provided by the organization:

Besides selling municipal land, the activities of the ED PUC currently include selling non-municipal land and stimulating sub-regional economic development. It is the bridge between the local government and businesses and helps create an interactive dialogue. The company cooperates with Chambers in terms of information provision and lobbying as well as participating in and organizing events. The ED PUC, the three public law Chambers, and the Hungarian Enterprise Promotion Fund cooperate in promoting an economic information system, helped by a sophisticated computerized data base. Very often, large investment projects either expand beyond Tatabánya's administrative area, or the ED PUC finds a piece of land most suitable for the investor outside the city's administrative border altogether. Regardless of the actual location, ED PUC helps in the project and regulates (in terms of finances) the cooperation. ED PUC also has developed the economic development policy concept of the sub-region and is an autonomous agency of the sub-regional association.

Support for non-municipal organizations providing public services:

The College of Modern Business Sciences works as a foundation. Setting up the college in 1991 to provide education that fits the municipal economic strategy, was supported by the local government by renting out the building of a closed down school free of charge to the foundation. The condition was that the building could exclusively house the college.

In the city there is one church and two foundation primary schools (one is being set up). Apart from the central normative transfer, the municipality supports the operation of these schools according to a unified financing scheme.



Contracting out service provision to private businesses.

As shown in Table 1, the local government contracts outside firms to provide certain services. The most important element in the contracts is whether they are for a specific or indefinite period of time (occasionally for one single job). A contract for an unspecified period of time is no less than a monopoly over which the municipality has no power and no control of the efficiency, costs and quality of the service. Tatabánya contracted garbage collection out because it had no capital resources to build a landfill. In order to keep the landfill as a municipal asset, the City Management Co, previously a municipal agency collecting garbage, had been privatized. The winning tenderer, a German firm, paid the landfill rent for 25 years in advance. REM Co with a German majority (25 percent is in municipal ownership) obtained a monopoly contract for garbage collection in the whole region, and has a 10-year contract, restricted to the territory of Tatabánya, to clean roads in the winter and do other public cleanliness activities. As for neighboring communities, the firm submits a tender annually and so far no competition has appeared.

The Child Rehabilitation Institute, made up of four member-institutions, formerly in municipal ownership, is currently operated by the DOH-Ungarn Public Use Company supported by the Teutonic Knights. This service was contracted out in order to improve quality. Here there was no direct demand for capital but the municipality could not have afforded indispensable improvements. Since 1995 a school for multi-handicapped children and a swimming pool have been added to the institution. The business has invested some HUF 300 million to improve the building. The local government transferred the ownership of the building to the public use company on the condition that its old function be retained. The contract for an unspecified period of time specifies that DOH-Ungar has to provide the service as if it were a municipal institution, and must maintain wages in step with statutory wage brackets of public employees. The municipality provides a certain support for operation based on a base value (the value before the 1995 privatization).

Similarly to the landfill, the operation of the public cemetery has been contracted out by the local government. The cemetery is operated by the Funeral Deposit Partnership. Here the motivation for contracting out was to secure benefits of a business partnership operation rather than efficiency or capital need. These benefits are cheaper labor through sub-contracting or VAT reclaim. Funeral fees are approved by the City Council and are collected by the business. Renewal and improvement costs are paid by the municipality but it does not support the business, while in the garbage removal contract it is authorized to request improvements.

For the provision of road maintenance services, the local government has contracted several companies. For services related to the road network, the municipality has had a contract with the Geotech Ltd. since 1992. The 10-year contract requires the business to do

road surveillance and keep records. The contract is reviewed annually by the local government. Maintenance of traffic lights is done by Signelit Co. on a similar contract. Winter operation functions are done by REM Co. on the same terms. The municipality invites tenderers twice a year for road operation and renewal services. The disadvantage of the tender is that sometimes low prices are offered to the detriment of technical quality. The tender review body has to decide on the criteria (it is useful to design a score-system). *Bus stops* are owned by the local government and are maintained by three different businesses. The contracts are for an unspecified period of time but are reviewed annually by the local government. The businesses dispose of advertisement space in shelters and must clean and replace the Plexiglas. *Painting traffic signs* on the road surface is put out to tender annually. Regularly, three companies submit their tenders and one of them wins. The municipality does not contract any of them for a longer period. Also *park maintenance and trench cleaning* is put out to tender annually. Here the main criterion is the company's equipment, but there is no regular winner. *Renewal* is tendered out regularly and usually won by Switelvsky Road and Railway Ltd., which offers the best price and best quality. The Ltd. has a concrete mixing compound and a testing laboratory in Tatabánya. The other usual winner is the STRAABAC LTD. from Tata. Normally the two companies divide the Tatabánya market between them: one wins as contractor and sub-contracts the other. Long term (10 years) contracts for operation include strict regulations and performance requirements.

Performance Measurement and Control

Various types of services involve different performance measurement and professional control issues. Measuring and controlling performance is very different for the local government in its own institutions, where costs are paid from the budget, and in contracted out activities, where the business has to provide a certain standard of quality for particular services. Contracting out activities requires significant professional knowledge from the municipality. The most important problems are: method of service provision, period of contract, setting fees, volume of mandatory investment, mandatory reports, ensuring and controlling the quality of service, ensuring publicity, and public procurement tender procedures.

Prior to the new local government system, the relevant department or institution of the county government controlled most of the services (education, welfare provisions and health care) provided by municipal institutions. Today, licenses for most municipal institutions are issued by some superior sectoral authority according to the provisions of relevant laws. These laws often require stricter criteria than are actually met. One expected result is that institutions would try catch up. However, often the law "softens" under the excuse of "national economic interests" and institutions that do not meet the criteria are not closed down but, like many member institutes of the United Social Institutions in Tatabánya, continue to function with a temporary license.

In the area of education, the former system of specialized supervisors had been gradually shrinking until its total abolishment in 1990. The earlier supervisory authority does not work any more and bodies of specialized supervisors have been transformed into county educational advisors that supervise teaching in schools upon request from the municipality or other public agencies. Basically, measurement of the quality of teaching only happens at basic learnedness and final exams taken at the end of secondary education and by results of pupils at county or national competitions and by the indices of pupils going on to higher education. As a result of the lack of control, one measure of the performance of a school is the trend in the number of its pupils. Due to this, together with a general decrease in the number of children, the municipality might face difficulties in the finance of schools. Curricula of schools are approved by the local government. If parents file complaints concerning the work of a school or a particular teacher, the municipality may not investigate directly but through the advisors. Performance measures could be developed based on these pieces of information. In Tatabánya the education department has made an attempt to develop a control system based on the national curriculum. Specialized work teams request schools to submit their work plans at the beginning of each year. Bi-annually they evaluate results together with the teachers. Work teams maintain contacts with those economic organizations that are important for vocational training. Their reports are submitted to the local government. Although institutions are professionally autonomous, they need the local government's approval for all education programs. Every year, the local government asks a group of outside experts to evaluate programs. Besides statutory exams, Tatabánya has introduced tests at the end of grades 1, 4, 8 and 10. The local government trains "measurement commissioners". As the local government issues all licenses, it can also control foundation and church schools through municipal independent experts. The municipality, however, has transferred this right concerning foundation schools to the county administration office, for it lacks specialists. The situation will hardly be ameliorated by launching an expert training program.

While in the area of education the law provides some guidelines concerning control, in the social area it does not provide any at all. In practice, the local government can suggest control, but the decision is made at the county level. In certain services, techniques of control are missing, while in other cases clear identification of responsibilities are missing, making control impossible. In Tatabánya in such cases, service quality is controlled through the tools of publicity. Seeing problems with garbage removal or public transportation, local citizens may file their complaints by telephone (a special "green number") and the relevant municipal official must investigate the problem and inform complainers about the results in writing. If the letter includes information of public interest, it is published in the local municipal newspaper.

The Tatabánya experience evidences that control and performance measurement is a matter of committed sectoral leaders. In particular, the education and social offices have to be mentioned. Nevertheless, the education strategic plan based on detailed background studies does not include the issue of performance measurement and control.

As for contracted out services, the contract specifies quality requirements but the city has not developed special indicators or indices. For instance, the contract for road maintenance requires the firm to check main roads every second day (to see whether signs are not missing, for example.) and the local government has to make any repairs in 48 hours. If it is not done and an accident happens because of it, the local government is held accountable. The technical supervisor on the local government checks only sewage works. As for other activities, the municipality does not have a specialist despite the fact that such control is required by regulations. The head of the transportation office mentioned that ministries require supervision but do not help local governments to meet requirements. Provisions of law are often too complicated and the local government can turn to no one for help. Even TÁKISZ cannot help. The municipality has no contact at all with the supervisory department in the Ministry of Interior and does not receive any help. Local governments with good personal contacts are in a better position. As for roads, qualification examinations require a very broad professional knowledge, something the local government does not have. The municipality tries to send its officials to trainings; luckily the Mayor supports all efforts of this kind.

FINANCING

On behalf of the Tatabánya municipality, István Jagicza and Ferenc Murányi talked about social problems and the role of local governments in crisis regions at a conference in Rumania². Both said that municipalities must not rely exclusively on central support, however serious their unemployment or shortage of capital. With their own programs and a rational use of resources, local governments may substantially ameliorate their social situation³. In a difficult financial situation the municipality must not expect to improve its situation solely through central support. It must reconsider local resources, rationalize its system of institutions and design the right economic policy. For Tatabánya, cooperation with P.A. Management International, a Canadian firm, was of great help in starting this process, as a result of which economic development strategy and the restructuring of the administrative institutional system were developed.

The Local Finance Strategy

According to the municipal finance leadership, the local government had to implement radical measures by 1995, after a period of worsening finances from 1990 to 1994. Continuously shrinking PIT reimbursement (100 percent in 1990, then 50 percent and 30 percent in 1994) made the local budget

² The Democratic Alliance of Romanian Hungarians and the Hungarian Agency for Hungarians Abroad organized the conference "Entrepreneur Municipalities and Municipal Enterprises" 6th and 7th March at Fékixfürdő, a town famous for its thermal springs.

³ Source: Önkorkép (Local Government Review), Issue 4, April 1998.

planning impossible and multi-year improvement loans financially unfeasible. Table 2 shows that between 1990 and 1994 the municipality increased its borrowing five fold to finance missing revenues.

Table 2
Municipal Borrowings (HUF million)

	1990	1994	1995	1996	1997
Credits and bonds at the end of the year	103	559	404	438	430
Credits taken between 1994-97	N/A	19	16	—	6
Municipal investments	—	1249	1237	1353	1159

The principles and methods of the new credit and budget concept adopted in 1995 are the following:

Only interest free or subsidized interests are taken out for non-operational purposes.

The municipality transforms existing credits into long-term (3-10 years), subsidized interest credits by taking out better credits to pay short-term bad credits as soon as possible. Payments are financed from savings.

The municipality restructures its credits so that the interest free credit from the Central Environmental Fund for energy modernization and the 15 percent interest coal credits become dominant. As a result, in 1994, a decision was made to introduce piped gas, modernize public lighting, sewer service housing from institutions, modernize district heating and construct sewage. These credits financed infrastructure improvements indispensable for the city's development. Also, resources for projects which return the investment were favored, though the City Council was somewhat reluctant to approve such credits. Other investments were financed from grants or sales of assets. When considering project finance, the municipality has ranked investments according to their potential of involving outside capital; projects with central support or resources from business or the citizens, reducing demand for municipal resources, are preferred. A preliminary calculation is made when the credit is taken.

Table 3
Maintenance and Operation of Institutions as a Percentage of the Budget

	1991	1994	1995	1996	1997
Percent of budget	62	60	56	49	52

Other stabilization measures:

Laying off 415 public employees (a 15 percent reduction of staff in all areas including the mayor's office).

Severe restrictions of communal expenditures.

Closing down 1 school.

ÖNHIKI grant (Support for municipalities in a disadvantageous position due to outside circumstances).

Meanwhile the local government has been restructured, and the ED PUC, fully in municipal ownership, was set up to trigger foreign investments; one of their principal tools has been the sale of high value municipal real estate. The total revenue from selling municipal assets was HUF 74,675 thousand in 1994 which more than doubled to HUF 155,392 thousand in 1995. In addition to reducing expenses, significant changes have been implemented on the revenues side. Local business tax was introduced at the same time.

Table 4
Local taxes

	Year of Introduction	1993	1994	1995	1996	1997
Total annual revenue in HUF thousand						
Building tax	1995			30,000	66,000	76,628
Communal tax from entrepreneurs	1995			25,722	21,200	24,000
Business tax	1993					
On permanent activities		164,633	197,000	206,074	283,740	392,384
On temporary activities						
Vehicle tax (shared revenue)	1992	17,721	16,017	15,530	43,291	50,189

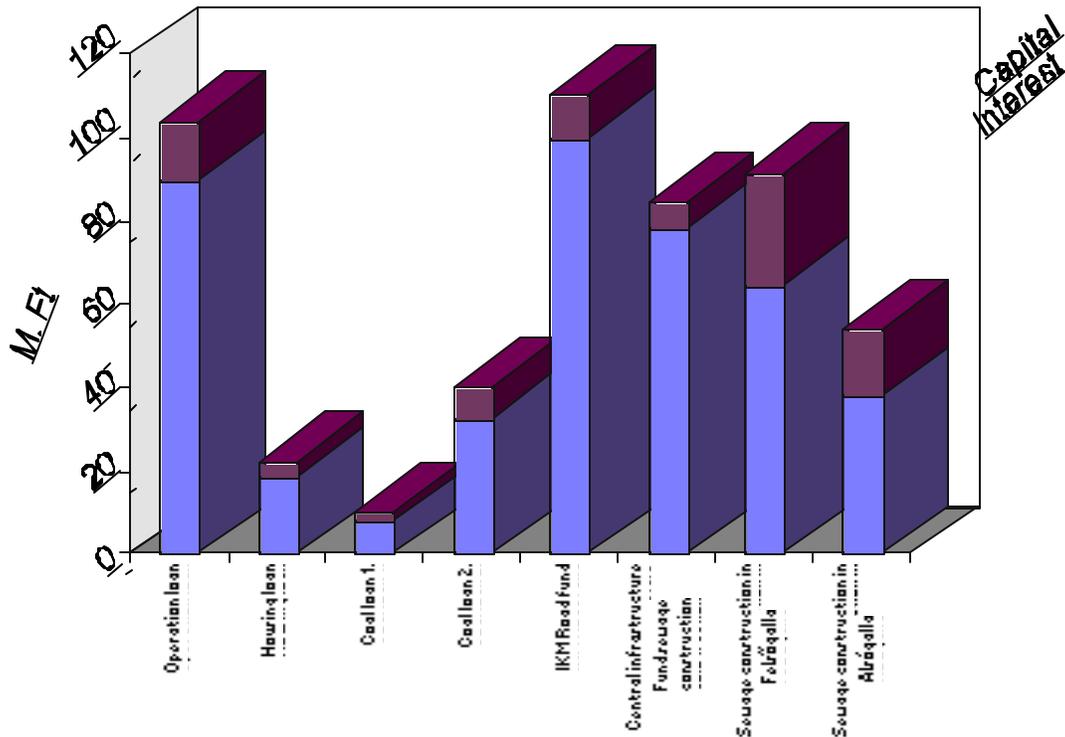
With the introduction of local taxes, however, arrears have increased. In 1997 total arrears were HUF 53 million, which was HUF 10 million more than in the preceding year. Vehicle tax arrears amounted to HUF 38.3 million. Duties arrears increased the most, from 1996 to 1997, by HUF 28 million (HUF 111.3 million in 1997). In order to better collect tax arrears, in 1997 the City Council decided to set up a Collection Group. The Group's scope of authority includes foreclosure and auctioning. In 1997 of arrears worth HUF 27,580



thousand, just about to be forcibly collected, HUF 14,300 thousand was collected in cash by officers on the spot; another HUF 870 thousand was categorized uncollectable. HUF 11,668 thousand is being collected through procedures of foreclosure, mortgage, garnishment, auctioning or incashment.

To balance the budget and restructure credits, those who paid 50 percent of their arrears by December 31, 1993, did not have to pay the rest. This resulted in a significant amount of extra revenue. In order to repay municipal debts, more municipal assets were sold and privatization revenues were spent on credit amortization. The impact of big investments on employment can be felt from this year while on local tax revenues as late as about 5 years.

Figure 1
Outstanding Debt (Date??)





In this way, the local budget was balanced by 1996 and in 1997 the municipality took out credits worth HUF 6 million. Chart 1 shows current municipal debts. Of operation credits, only HUF 90 million has been taken with a 20 percent interest rate, the rest are subsidized interest loans.

Based on this city's investment priority, the local government does its best to obtain as much in grants as possible. Grant application efforts are coordinated by the notary and four departments as well as by an extra staff person hired to write up applications. The local government obtains huge amounts in grants. In the second four-year term, annual investments amounted to HUF 1 billion. Difficulties only arise with PHARE grants: only one project, the district heating improvements, are financed from this resource, obtained by KOMTÁVHŐ, a Komárom based company.

Involving local businesses works well in Tatabánya; for instance, businesses contributed to road reconstruction by directing their local tax payments to that fund. In exchange the municipality consults large businesses and organizations in modifying local taxation. In ranking investment priorities, the most important consideration is the impact on the city, whether the investment helps to restructure the economy, better protect the environment and support newcomers in the city. The city scaping plan includes the city development concept. The municipality ensures own resources in improvements by selling land or stocks. In this year, for instance, HUF 450 million has to be put up from selling land. Of course the potential of selling assets is finite and sooner or later this strategy will need revision. Often the local government sells fully designed projects: for instance it sold land for building garages with a construction plan. A similar scheme worked in the sports field privatization.



Local and Central Resources Figure 2. Local and Central Resources (HUF million)

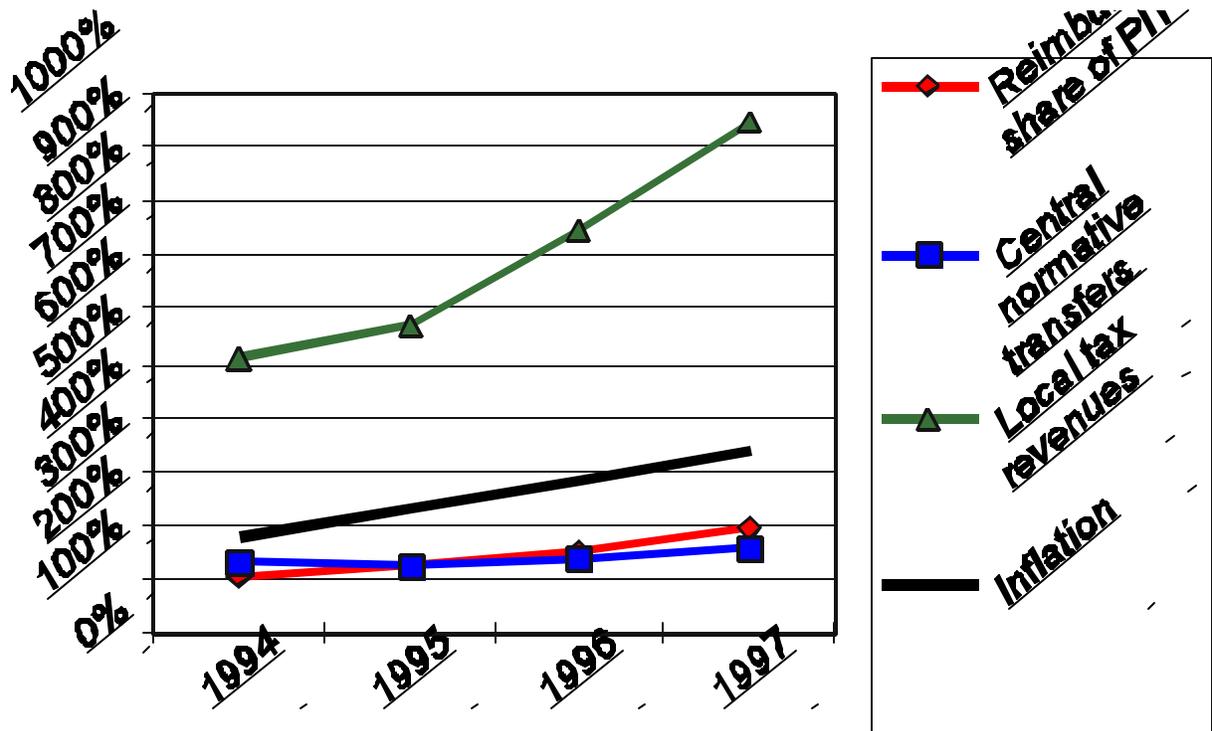
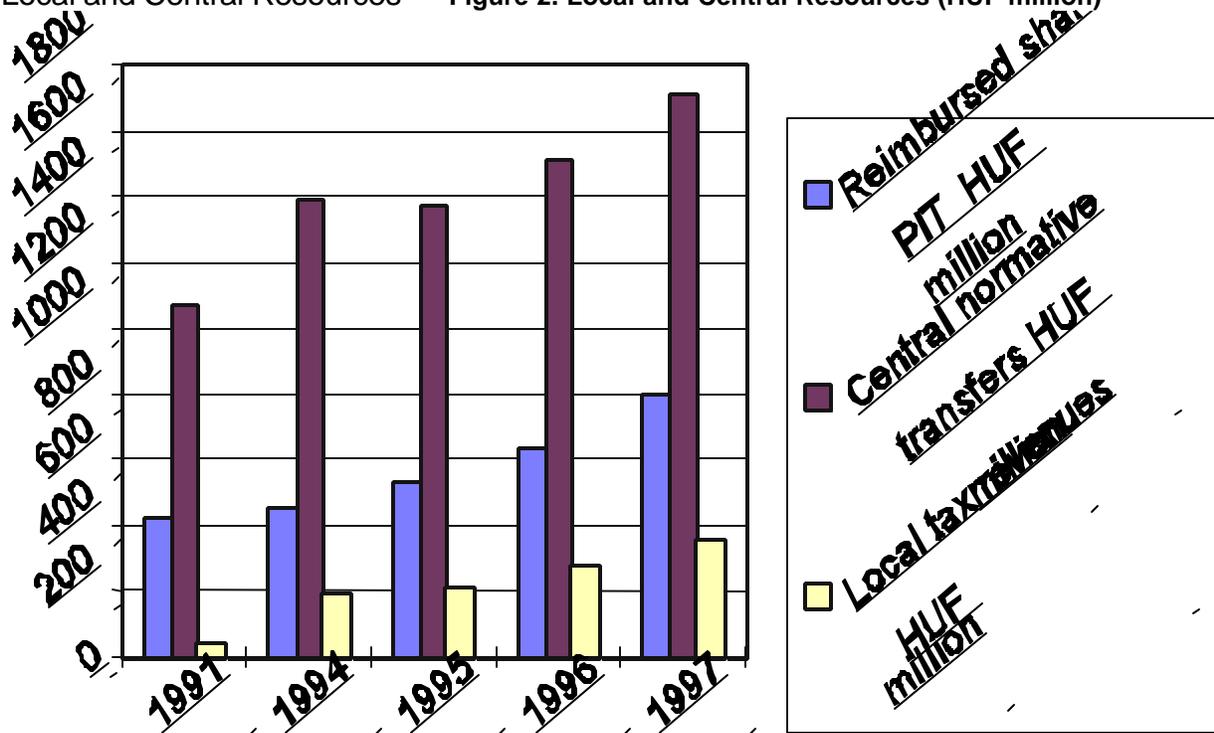


Figure 2 shows the continuous increase in the nominal value of central normative transfers; however, required municipal services supported by normatives have grown, too. In Tatabánya, changes in the reimbursed proportion of PIT have not reduced the nominal value of this revenue; nevertheless, continuous changes in the proportion of PIT reimbursement to local governments make financial planning difficult. As a result of a 50 percent share in PIT in 1992, amounts spent on city management and investments increased and no savings were made. In 1993 drastic changes occurred: the PIT share of local governments was reduced to 30 percent. Since then, 1998 has been the first year in which the share of PIT retained by the center has not increased as 20 percent of PIT revenues go to the fund of normatives.

Figure 3 shows changes in PIT, normatives and local taxes in comparison to the base year of 1991. Actually, the increase in central revenues greatly lags behind the inflation rate, despite the fact that local expenditures in this period are not considered. By contrast, the increase in local tax revenues is much greater than the inflation rate, yet it is not able to offset the decrease in central revenues (in 1997 local tax revenues amounted to 6.6 percent of the budget). Chart 2 shows the increase of normatives from 1996 to 1997. One reason for the increase is that while until 1996 the center transferred normatives and the fund to raise wages of public employees to local governments separately, after 1996, though normatives have increased, municipalities have to ensure a 16 percent raise (wage raises are a normative). As a consequence, since 1996, the difference between central normative transfers and real costs (to be paid by the local government) has been increasing in the case of service providing institutions (schools, kindergartens, social homes). In 1998 HUF 163 million more is needed than in the previous year. In schools, normatives cover wages but are not sufficient to pay the full costs of services.

Institution Financing

A general tendency of the city is to try to make its institutions interested in increasing their own revenues. Until 1998, fee revenues of institutions (from meals or renting out space) were a part of the municipal support for operations. From this year on, however, institutions dispose of their extra revenues and savings. The theater receives municipal support independently of its own revenues and does not get more money if its revenues decline (the decision was based on the budget). The theater manages its finances autonomously: it gets a flat sum from the municipality plus central support for permanent theaters with professional actors in the amount of 68 Fillers (one hundredth of a Forint) for each Forint of municipal support.

In the case of educational institutions, the municipality supplements central normative transfers and the institutions' own revenues to ensure operations.

Factors affecting the amounts of support for individual schools are the average age of teachers, the average number of pupils/students and the technical quality of the building. In Tatabánya the demand for support of primary schools is high due to the already mentioned problems, and their need can only be reduced by increasing own revenues.

Table 5
Number of children in municipal educational institutions

Academic year	Number of children in kindergartens	Number of pupils in primary education	Number of students in secondary education
1990/1991	2,823	9,622	4,643
1994/1995	2,736	7,900	5,500
1995/1996	2,669	7,525	5,314
1996/1997	2,738	7,409	5,394
1997/1998	2,642	7,297	5,290

Table 6
Per capita costs

HUF thousand/capita	Kindergartens	Primary schools	Secondary schools
1991	57,341	44,688	51,091
1994	68,597	94,969	101,906
1995	116,616	108,376	85,084
1996	119,414	110,543	98,245
1997	153,815	134,805	131,409

Per capita costs are relatively low in secondary education partly because secondary school capacity is well used and partly because they have more opportunities to increase own revenues.

The Social Rehabilitation Center is a good illustration of incentives for institutions to raise own revenues. Though the Center had been useful, in 1995 the local government wanted to close it down because it was a loss. There are no central normatives for this kind of activity, and the Center's revenues included own revenues (sales of its own products), municipal support as well as subsidies from the Rehabilitation Fund. Currently the Center operates practically independently, with a minimum of municipal support (HUF 200 thousand in 1998). Besides professional skills, this kind of attitude requires managerial skills of institution heads.

Over the negotiations with DOH-Ungarn, the local government has developed a model for support to finance contract services. In essence, the municipality ensures the same support for non-municipal institutions as for municipal institutions in the same sector. The local



government supplements the revenues of each institution (central transfers and own revenues) to reach a specific local per capita cost. This support is different for foundations, churches and other organizations (public use companies): church organizations receive 100 percent of the supplement, foundations 50 percent and other organizations 80 percent of it. An additional support provided by the local government is that institutions may use the building free of charge. The ownership of the building, however, is not always transferred. If the ownership is transferred, the municipality has the right of preemption if the service ceases. In practice this means that the ownership is returned to the municipality gratis. The municipality is not liable for paying for improvements completed by the organization which used the building. This method serves to eliminate subjective elements, ensures foreseeability and promotes contracting out public services.

THE LOCAL GOVERNMENT AND THE CAPITAL MARKET

Investments and Privatization

Table 7
Results from 1995 Debt Servicing

HUF million at 1998 value	1993	1994	1995	1996	1997	1998
Own current revenues	1,333	1,794	1,372	1,757	1,888	1,182
Centrally regulated current revenues	5,241	5,076	4,607	3,575	3,357	3,313
Total current revenues	6,574	6,870	5,978	5,333	5,245	4,495
Total current expenditures	6,854	6,717	5,681	4,738	4,881	4,373
<i>Operation income</i>	-279	153	297	595	364	122
Debt service	29	580	519	364	189	183
<i>Net operation income</i>	-308	-427	-221	231	175	-61
Own capital revenues	866	790	990	1,083	1,012	1,346
Capital revenues taken from the central budget	307	—	—	195	67	550
Total capital revenues	1,173	790	990	1,278	1,079	1,896
Investment and capital expenses	2,163	1,056	876	1,741	1,434	2,266
<i>Investment deficit (+) / surplus (-)</i>	990	266	-114	463	356	371
Other resources	55	42	13	77	169	245
Other expenditures	46	17	14	26	—	102
<i>Resource deficit (+)/ surplus (-)</i>	1,289	667	108	181	12	290
<i>Borrowing</i>	886	789	27	274	7	290
Last year balance	606	171	228	118	179	152
Final balance	203	293	146	211	174	152

Since 1993, the municipality of Tatabánya has spent HUF 300 to 400 million (at 1998 value) more annually on improvements than on its investment and capital revenues. In 1994 and 1995 this extra amount was financed from borrowing, while in 1996 and 1997 improvements were financed from operation costs savings and in 1998 (as planned) from privatization revenues. Although the city saved on operation resources in 1994 and 1995 too, these savings were spent on debt service. Table 7 shows the results of the 1995 debt servicing. In 1995 the city drew resources both from development funds and from operation funds to amortize loans taken in previous years. The budget has been balanced since 1996. Debt servicing fell to 70 percent of the 1995 level in 1996 and to 36 percent in 1997, or a 48 percent total decrease over 1996 and 1997.

Despite the fact that in Tatabánya, as in other communities, central grants to be applied for have become the dominant resource, central development resources represent a relatively small proportion in the municipal budget. Table 8 compares central development resources in the six cities in our study.

In 1993 Tatabánya received approximately as much in central development resources as Orosháza, yet the per capita figure shows that Tatabánya lags far behind Orosháza and Szolnok in terms of grants received. While Szolnok has evenly increased its revenues from central development resources since 1993, amounts from central grants to Orosháza were conspicuously high in 1993 and 1994, then fell sharply and have stabilized by 1997 and 1998. The Tatabánya figures are hectic. The city is one of those cities in our research that rely the least on central development support. While the main focus in Orosháza is on collecting the maximum amount from central development funds and Szolnok is trying to make the best use of this resource, Tatabánya's economic policy is not focused on collecting the most possible of central resources. Although the municipality applies for grants whenever it is possible, the city development strategy is not tailored to the central development policy.

Table 8
Central Development Resources Comparison

	Population	Central support at 1998 value					
		1996	1998	1993-1998	1996	1998	1993-1998
	Thousand	HUF million		HUF thousand per capita			
Orosháza	33	179	536	4,182	5,2	16,3	126,9
Szolnok	79	567	1134	2,759	7,2	14,4	35,1
Tatabánya	72	195	550	1,118	2,7	7,6	15,5
Nagykanizsa	53	335	N/A	1,740	6,32	N/A	33,1
Püspökladány	16	22	1	88	1,4	0,1	5,4
Szentes	32	70	238	475	2,2	7,4	15,0

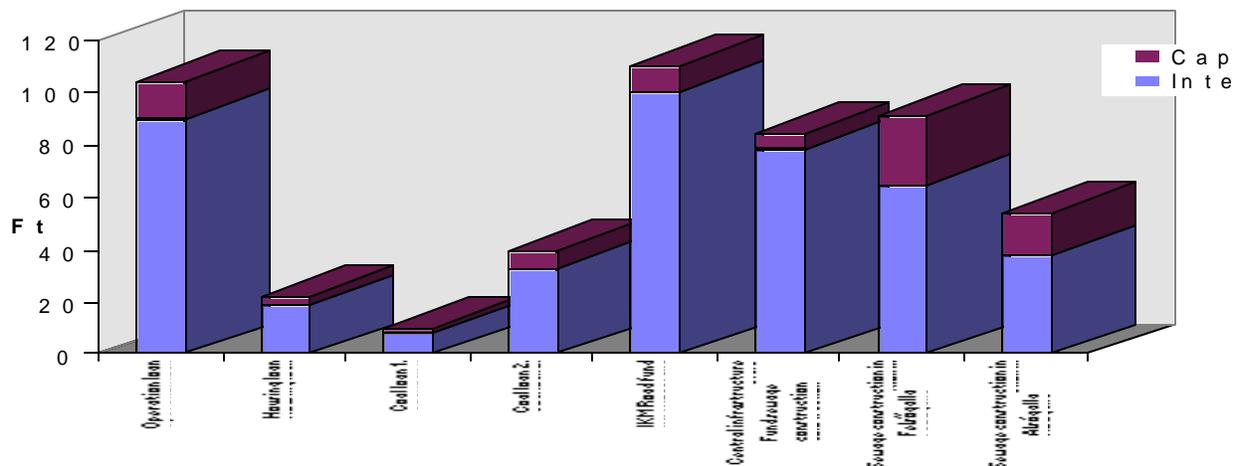
In Tatabánya the investment level was relatively high in 1993, fell back in 1995 and only achieved the 1993 level again in 1998. The value of investments in doubled from 1997. After the 1994 and 1995 stagnation, there is a different resource structure underlying the current investment boom. Earlier improvements were financed from borrowing, which has been gradually phased out and currently the main resource is own resources. The annual borrowing fell from HUF 800 million in 1993 to HUF 300 million in 1998.

In Tatabánya municipal investments are mainly financed from local resources rather than from central subsidies. Table 9 shows that, of the cities in our research, Tatabánya spent



the most on investments from 1993 to 1998, but that the portion of central support in these investments is the second smallest after Püspökladány. In terms of investments and supports, the two extremes are Püspökladány and Orosháza. In Orosháza, central subsidies have been three times as much as the average between 1993 and 1998 (66 percent for the period 1993-1998), which leads to a relatively high per capita investment (HUF 196 thousand/capita in the period 1993-1998). At the other extreme, Püspökladány invests very little and does not make use of central funds (Figure 4). The rest of the cities implement larger per unit investments than Püspökladány and use less central support than Orosháza; in other words they use less central support for one unit of investment and use more of their own resources. Generally speaking, larger cities have used more per unit own resources (over HUF 110 thousand per capita) for investments in the past five years than smaller communities. More specifically, Tatabánya used the most of own resources (HUF 116.9 thousand per capita).

Figure 4



Between 1994 and 1997, Tatabánya's main own resource has been privatization revenues, but expected investment projects in 1998 will be financed from revenues from asset development rather than sales. Constructing the landfill was beyond the city's capacity to put up the necessary own part. The project was financed from privatizing the City Management Co. in municipal ownership as well as from advanced revenues from the project.

Table 9

	Investment and capital expenditures		Central budget subsidies		Own resource	
	Between 1993-1998 at 1998 value		As a percentage of total investment		1993-1998	
	HUF thousand/capita	HUF million	Percent		At 1998 value	
Orosháza	6,285	190.5	4,182	126.7	66.54	63.7
Szolnok	11,648	147.4	2,759	34.9	23.70	112.5
Tatabánya	9,536	132.4	1,118	15.5	11.72	116.9
Nagykanizsa*	7,609	143.6	1,740	32.8	22.90	110.7
Püspökladány	1,267	79.2	88	5.5	6.94	73.7
Szentes	3,582	111.9	475	14.8	13.26	97.1

Note: No 1998 data available for Nagykanizsa

The Landfill

The decision making mechanism concerning municipal investments in Tatabánya can be illustrated through the landfill project.

Site Selection

The project first became urgent in 1990 and 1991, when it turned out that the landfill would be full in 5 to 8 years. The local government looked for a permanent solution. The 60-hectare coal silt deposit of the mine under liquidation seemed a proper site for the landfill. Based on current data, this project would solve waste deposit problems in the city and its neighborhood for 80 to 100 years. The impact assessment was paid by the mine as seller. The City Council decision to buy the land was made at the end of 1992 after the plan was approved by the City Development Committee. The purchase price was HUF 10-15 million.

Preparations for implementation

The local government calculated that costs of the project would be HUF 1 billion but did not have the necessary resources. The city applied for a central grant worth HUF 500 million, half the total amount; the other half was to be obtained through selling stocks of the City Management Co., with the municipality retaining only 25 percent.

The city management organization used to be in municipal ownership. Later it became



a joint stock company, 80 percent in municipal ownership (named City Management Co.). Half of the remaining 20 percent is owned by several small private businesses; the other half is employees' shares. Besides waste disposal, another urgent problem was the renewal of the garbage removal equipment (belonging to the City Management Co.) It seemed that privatizing the company would create resources for the landfill project and for modernizing the equipment. One of the objectives was to not increase the burden on people too much. An assessment revealed that financing the project from borrowings would hit citizens harder. The City Council finally approved the project though it was hard to convince them with arguments such as citizens' burden, the necessity of the landfill, and alternative resources (selling shares is a profit).

It was decided to privatize 55 percent of the City Management shares (25 percent retained by the local government) with the restriction that the buyer would finance 50-100 percent of the cost of constructing the landfill from future fees. The actual contribution from the business depended on how much the municipality could put up from central funds and addressed and targeted subsidies. (The municipality managed to collect HUF 500 million, half of the cost from central support).

Privatizing the City Management Co., putting up the resources for the landfill project:

The privatization tender. The two-stage tender documentation provided that the winner could buy City Management shares at HUF 150 million on the condition that it advance the cost of the project and then increase equity capital. The submitted tender was reviewed by the City Development and the Landfill ad hoc committee (set up in late 1994) and made up of specialists from the factions of the City Council, the local environmental rapporteur and headed by the mayor. The municipality hired an outside company to write up the invitation for an open tender. Seven companies bought the tender documentation which cost over HUF 1 million; one submitted tender was invalid.

March 1995: prequalification. 6 tenderers were prequalified by two committees. *1996:* closed tender: only these 6 tenderers were invited. Submitted tenders were opened and reviewed in August 1996. Reviewing was done by the ad hoc committee and outside experts (a privatization expert, representatives from the local architects' chamber and from the profession). During the review process, the City Council examined the materials twice to decide on how to proceed (whether there should be a hearing, or whether a decision should be made at once). Eventually, tenderers were requested to answer 5 packages of questions; after which they were ranked by the ad hoc committee. The ranking was then endorsed by the City Council. The

municipality first negotiated with the tenderer who was ranked first. When negotiations failed, new negotiations were automatically commenced with the second and third tenderer, without new tender.

Signing the Contract

Eventually, a contract package (six contracts) was signed with RWE and Zorgung Hungary Ltd., the tenderer ranked first.

The frame contract included basic terms of the contract, agreement on the direction of the firm (the municipality has veto rights on investments, business plans and work plans and other strategic issues regardless of its shares in the business; the municipality also delegates two members on the board of directors and one member plus the chairman on the audit committee). The contract on selling shares regulates transferring business shares (the business can only be sold with the approval of the local government).

In the contract on using the landfill, RWE paid HUF 500 million, in advance of fees from the citizens of Tatabánya for 25 years (i.e., the local government sold the right to rent the landfill for 25 years for a flat rate sum).

The use contract is for 25 years. The second phase of the investment begins in 15 years. If no central subsidies are available, RWE pays total costs.

Both the landfill and servicing facilities remain fully in local government ownership. RWE pays rent and fees for garbage coming from households outside Tatabánya and for non-household garbage from Tatabánya. (the local government retains 25 percent of collected fees).

Fees are paid monthly at the end of the period. At the time of signing the contract, the fee is HUF 40/ton, to be reviewed annually. The minimal rate of raise is the rate of inflation.

The contract is for 25 years and regulates the maximum rate of fee hike: the annual fee for citizens is HUF 3600 in 1997 and HUF 5400 in 1998.

In 1998, fees will be raised by the consumer price index (from September to September):

The fees in 1999 will be CPI + 15 percent.

The fees in 2000 will be CPI + 10 percent.

The fees in 2001 will be CPI + 10 percent.

In the future the company cannot hike fees more than CPI and has to follow the municipal scheme of setting fees (based on the inflation rate and cost structure).

The contract specifies parameters to be met by the company: HUF 150-200 million of investment in modernization in 2 or 3 years, etc.

The municipality, as the owner of 25 percent of the company retains 25 percent of fees collected from households outside Tatabánya and from non-households in Tatabánya.

Contracts for other public cleanliness services – 10 year contract

Contract for winter management of roads – 10 year contract

The objective of the business is to expand regionally (its exclusive rights pertain only to Tatabánya) and expand recycling. With this investment, it has bought the market. The investment will return in about 10 years, but as the second phase of the landfill project is due in 15 years, actual profits can be collected in the five years between the two investments.

It was difficult to handle both the privatization of the City Management Co. and the landfill project. During the tender procedure, the municipality applied for central targeted subsidy and for a grant from the Central Environmental Fund. To apply for these funds requires committee (budget) approval since this type of grant requires that the municipality contribute its own part to the project. Eventually 40 percent of the costs of the project was collected from the targeted subsidy and 10 percent from the CEF. The remaining 50 percent was advanced by the German company from future fee collections. The main objective of the local government was to retain ownership of the landfill; in order to do so, it put up 100 percent of investment costs. Otherwise it would have become too defenseless as it had sold the right of collecting garbage. The municipality has no say in the financial management of the firms except in service provision (for instance hazardous waste).

Implementation of the Project

The municipality also put planning out to tender. The licensed plan necessary for the privatization of the City Management Co. was ready in 1995. The implementation plan was

ready in 1997.

As required by the public procurement act, implementation of the project was put out to tender. A delegate of RWE sat on the committee. The main contractor was Swietevski Road and Rail Ltd. from Tatabánya and the sub-contractor (a sub-contractor was required), Keviep from Debrecen. Work is currently underway. The deadline is October 30, 1998. The total value of the investment is HUF 760 million + VAT.

REGIONAL COOPERATION

As a result of accelerated EU accession efforts and the 1996 regional development act, the medium-level system of regional development institutions has been established:

- Regional development councils
- County development councils
- Sub-regional regional development associations

This system does not contradict the system of local and county organizations in place so far, as regions have exclusively an informational, planning and program management role. Community and central regional development efforts are coordinated by autonomous county development councils. Decentralization of financial resources happens at this level as well. Thus, regions are planning and statistical units, built up of administrative units. Setting up regional councils is one step forward towards decentralization, though actual division of tasks has not taken yet. Regions develop at their own pace. The central law only formulates recommendations about setting up work organizations, which really depends on local needs and possibilities.

Region and Sub-Region

The 1996/XXI Act set up the Tatabánya and Neighborhood Sub-Regional Associations of 9 municipalities (Tatabánya, Vértessomló, Vértesszőlős, Gyermely, Héreg, Környe, Szomor, Tarján and Várgesztes), with the mayor of Környe as chairman. The sub-regional concept was prepared by the ED PUC as the agency of sub-regional development. The goals of the long term strategy of the sub-region are mostly identical with those of Tatabánya. In contrast to the general practice in Hungary that this type of cooperation is an interest alliance to apply for grants (signature function), the Tatabánya sub-regional association has real functions:

Környe and Tatabánya share one industrial park: the designated area for the industrial park spread over the administrative area of Környe as it expanded. Then the two communities signed an agreement on developing and operating the industrial park

together. One outcome is that Tatabánya takes a share of business taxes from enterprises on Környe's side of the industrial park.

Tatabánya has a commercial agreement with Vértesszőlős: The ED PUC sells land that is on the periphery of Tatabánya but belongs to Vértesszőlős, and in this way encourages investments. In exchange Tatabánya receives a share of business taxes.

However, the cooperative week-end medical service of Szomor and Tatabánya is but a statistical cooperation: Szomor is more accessible from Budapest, and its economic ties are with Budapest. Tatabánya is the center of the cooperation and meets most of the functions of the one-time district. As it has a limited amount of free land, big investments often spread beyond its administrative area, or the ED PUC finds a piece of land most suitable for the investor outside the city's administrative border altogether. Regardless of the actual location, ED PUC helps in the project and regulates (in terms of finances) the cooperation. It also represents the city's economic policy in the sub-region. That cooperation efforts are more active in the Tatabánya sub-region than usual is clearly the result of the ED PUC's activities.

The most important responsibilities of the sub-regional association is to successfully represent the interests of the 9 municipalities in the county development council and in the regional development council as well as to create operational and development cooperative relations with the Tata, Oroszlány and Bicske sub-regions to promote regional cooperation. In Tata the lack of land and in Oroszlány the long distance from the highway led to the idea of promoting tourism. This is one of the pillars of the cooperation of Tatabánya and neighboring sub-regions. The deputy chairman on the Komárom-Esztergom County Development Council is always the mayor of Tatabánya. Apart from the distribution of funds in its competence and issuing publications, the Council has not made any development or PR activities. Nevertheless, goals such as the cooperation concerning tourism and investments may create a new basis for cooperation at the county level.



The Central-Transdanubia Regional Development Council

This region comprises counties Komárom-Esztergom, Fejér and Veszprém. The three county heads are the chairmen in a rotation system. Recently the RDC has set up a working organization (so far a single person public use company on the model of the Tatabánya ED PUC) with its headquarters in Székesfehérvár, to be the agency for the region. Its operations fund is HUF 10 million from a central targeted subsidy.

Special Alliances

Associations between communities created for specific activities play an important role in Tatabánya.



Által-Ér (the local river) Association

This association between communities along the river was initially set up to improve the quality of water in the Tata lake and to address other regional issues. It is the beginning of the cooperation of the Tata and Tatabánya sub-regions concerning tourism and helps fill up the regional cooperation with content.

Central-Pannon Regional Development Co.

The company, then an Ltd., was set up in late 1994. Its main owner is the Hungarian Development Bank and founders are the cities Székesfehérvár, Tatabánya and Veszprém. Its activities in the three counties are venture capital investment, asset management and financial and economic advising. Recently it has played a significant role in industrial park-type programs in the region. In Tatabánya, this company wrote the feasibility study of the industrial park as a consortium. It is important to note that all three founder county seats are more innovative than the average city and have several multi-national large companies.

Komárom-Esztergom County Enterprise Development Fund

The Fund was the partner of the C-P RDC in conducting the feasibility study of the Tatabánya industrial park. The municipality regularly supports the Fund, which has a rent-free office in the building of the local government, and has its overheads paid by them as well.

FINAL CONCLUSIONS

Tatabánya is one of the cities that has been in a very difficult situation due to the change of regime. However, the city leadership has been capable of making use of the location of the community to create a dynamically improving industrial center.

The management of the city is careful and innovative. By careful we mean that the city has a specific vision that guides its service provision, financial management and investment policy. The municipality undertakes responsibilities that are not mandatory but are city policy priorities. Tatabánya is one of the rare cities that are able to represent local interests in the face of central investment subsidizing policy.

By innovative, we mean that the local government organization has been totally restructured; that services are provided through a wide range of organizations with various ownership and operation structures; that cooperative efforts with (neighboring) communities are filled up with content.



Yet, inherited problems are still there. Despite significant innovations, the city has not managed to reorganize its institution structure, as in the area of education. Schools, spread across a large area, incur financing problems. In order to make city operations more efficient, the municipality must apply financial tools that make “what costs how much” issues more transparent and make the consequences of decisions more tangible. One such tool is program budgeting which links financial and professional considerations, and concentrates on the tasks rather than on institutions within a sector. In the case of big investments, successful implementation can be helped by making the decision only after applying a planning model that includes studying financing alternatives and their consequences. Tatabánya has taken specific steps in this direction, for instance in the landfill project. However, applying internationally established techniques, such as monitoring and performance measurement, would be desirable.